Should a client convert to a Roth IRA?

Bob’s Roth Conversion Observations™

1. After determining the “optimum” conversion amount, additional amounts converted may be detrimental in that they increase the effective tax rate on the conversion.
2. Always convert more than the initial numbers suggest and recharacterize if warranted.
3. Recharacterize depressed accounts in November of the year of conversion and reconvert in January.
4. The Roth IRA is the most powerful asset with which to fund a GST exempt trust.
5. There is no bright line rule or numbers that will most likely be beneficial.
6. Partial conversions generally provide a better quantitative result than 100% conversions.

11 Reasons to Convert to a Roth IRA™

1. Taxpayers have special favorable tax attributes, including a high basis ratio, charitable deduction carry-forwards, investment tax credits, net operating losses (NOLs), etc. This is because these attributes reduce the effective tax rate of the conversion.
2. Suspension of the minimum distribution rules at age 70½ provides a considerable advantage to the Roth IRA holder. This allows for additional tax-free deferral.
3. Taxpayers benefit from paying income tax before estate tax (when a Roth IRA election is made) compared to the income tax deduction obtained when a traditional IRA is subject to estate tax. This is because the IRC § 691(c) deduction is inefficient.
4. Taxpayers who can pay the income tax on the IRA from non IRA funds benefit greatly from the ability to enjoy greater tax-free yields. This is because of the ability to move funds from a “taxable” to a “tax-free” tax asset class.
5. Taxpayers who need to use IRA assets to fund their Unified Credit bypass trust are well advised to consider making a Roth IRA election for that portion of their overall IRA funds. This is because the exemption is funded on an after-tax basis.
6. Taxpayers making the Roth IRA election during their lifetime reduce their overall estate, thereby lowering the effect of higher estate tax rates.
7. Because federal tax brackets are more favorable for married couples filing joint returns than for single individuals, Roth IRA distributions won’t cause an increase in tax rates for the surviving spouse when one spouse is deceased because the distributions are tax-free. (See chart on page two.)
8. Post-death distributions to beneficiaries are tax-free. This is possibly the most advantageous aspect of a Roth IRA conversion.
9. Tax rates are expected to increase in the very near future. Higher tax rates in the future means more tax will be paid on taxable IRA distributions than the tax that would be paid on a conversion at a lower rate.
10. The ability to recharacterize allows the taxpayer 20/20 “hindsight”, effectively allowing them to “undo” conversions that were not advantageous. This allows the client to create a powerful “heads you win, tails you tie” opportunity that protects against adverse market swings. Later recharacterized funds can be “reconverted.”
11. 3.8% Surtax. A conversion will be beneficial for taxpayers.

For Broker/Dealer Use Only

Go to www.ultimateiratraining.com to order this chart. Email info@keeblerassociates.com to be added to our newsletter or for information about seminars, books, etc.
### Important Tax Law Considerations

**CPA's Checklist**

- Analyze Tax Rates
- Consider Tax Attributes
- Determine Amount to Convert
- Convert by Asset Class
- Determine Tax Estimates
- Monitor Alternative Minimum Tax
- Monitor Taxation of Social Security Benefits and Increases in Medicare Premiums
- Monitor Recharacterization(s)
- Monitor Reconversion(s)
- 3% Surtax planning
- Consider oil and gas investment

### Important Financial Advisor's Checklist

- **Death & Married Rates**
  - If death of a married taxpayer is imminent, it may be more advantageous to convert to a Roth IRA while the taxpayer is still alive in order to utilize the marital deduction on a joint tax return.
  - Post-death distributions are taxable.

- **Pension Recharacterization Act of 2006**
  - Non-spousal beneficiaries are permitted to roll over a qualified retirement plan (e.g. 401(k) plan), via trust to trust transfer, into a Roth IRA effective for tax years beginning after December 31, 2006.

- **The Small Business and Credit Improvement Act of 2010**
  - Allows the conversion of 401(k), 403(b), and governmental 457(b) plans to Roth accounts.
  - Keystroke and trust to trust transfers, into a Roth IRA effective for tax years beginning after December 31, 2006.

- **Roth Conversions**
  - Roth conversions can be treated differently from state to state.
  - Consider local tax implications.

- **Conversion Period**
  - First date in which a 2011 Roth conversion may take place.
  - First date conversion can take place.

- **Recharacterization Period**
  - Last date in which a 2011 Recharacterization can take place.
  - Final date conversion can take place.

### Important Estate Planning and Asset Protection Considerations

**Lawyer's Checklist**

- **Estate Planning Considerations**
  - Ensure that beneficiary designation forms are updated to seamlessly integrate the Roth IRA into the overall estate plan.

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